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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE business situation has shown no pronounced change in the past month, but the trend of developments and opinion supports the view that while there will be no such outburst of activity as characterized the markets last Spring, good business is assured throughout the remainder of the year and likely to continue beyond.

The month has been an eventful one in world affairs, beginning with a flare-up which threatened war between Italy and Greece and the calamitous earthquake in Japan, followed by a revolution of the Fascisti type in Spain and culminating in the unconditional abandonment of the policy of passive resistance in the Ruhr. The Italian-Greek imbroglio and the Spanish development occasioned little disturbance in the business world, it being assumed that the former would be quickly settled and that the latter was of only domestic political importance. The Japanese disaster affected the silk market sharply and strengthened prices of building materials on the Pacific Coast, but other effects were thought to be too remote for immediate influence. The change of policy of the German government upon the subject of the Ruhr occupation is a development of the first importance, but the markets have been slow to act upon it, because of the uncertainties in which the situation is still involved, with respect both to possible disorders within Germany and the settlement yet to be made with the Allies. It must be regarded, however, as a very encouraging change in the world situation.

Next in importance to the prospect of a settlement of the European controversy is further evidence that the position of agriculture in this country, is improving, slowly perhaps, but with definite gains. Prices are decidedly better than three months ago, the value of this year's crops is well above last year's record the country over, the farming population is in better financial condition and has greater purchasing power than a year ago.

Building Operations

Reports from over the country indicate that building activities are slowing down, but this relates in the main to the starting of new work rather than to actual operations. Last Spring the amount of work started was beyond the capacity of the industry, resulting in competition for mechanics and the payment of bonuses above regular scale rates until increasing costs caused new undertakings to be held up. The diminished demand has disposed of the bonus system to a great extent and the excitement has subsided, but work is going on at about as high a rate as before. In August the aggregate of new building permits filed in 252 cities was $256,722,571, against $241,319,824 in July, but the gain was all in New York City. Lumber sales, after a midsummer lull, have been increasing. The weekly figures of the National Lumber Manufacturers' Association show ratio of orders to actual production for each of the five weeks from August 23 to September 20 have been as follows: 76, 87, 89, 82, 103. Production declined slightly during the period, but is now picking up. Stocks in the hands of mills, wholesalers and retailers, are reported to be unusually low. Production of cement in August was 12,967,000 barrels, 350,000 over July, which was previously the highest month on record. For the eight months ending August 31 nearly 88,000,000 barrels of cement were produced, and shipments were 91,000,000 barrels, 19 per cent greater than ever before. Road building is a large factor in cement consumption, and this work is likely to keep up for several years. Among architects and builders the opinion prevails that building operations next year will be on a scale sufficient to keep the available force of skilled workmen generally employed. No doubt the trend of building costs will have something to do with it; the index shows them to be now 122 per cent over the 1922 level.

General Trade

The buying movement in wholesale markets in September was on the whole disappointing to those who were looking for a great revival,

but the latest reports from the industries are generally satisfactory, and railroad traffic, the best index to the movement of commodities, has continued from week to week to break the records of all other years. For the week ending September 15, the latest for which a report is available, the loadings of revenue freight were 1,060,580 cars, an increase of 123,359 cars over the corresponding week of last year, 208,028 over the corresponding week of 1921 and of 69,414 over 1920. It is now more than five months since the slump in new business began to be talked about, and the activity of industry and volume of railroad traffic in the meantime apparently accounts for the decline in buying. The ordering done in the Spring plus what has been done since has been sufficient to enable the industries to make new records in production and the railroads new records in freight handling.

The statistics of industrial production gathered by the Federal Reserve Board indicate that the August output was 27 per cent larger than in August 1922, and that production in every month of this year has been at a higher level than in any month of the previous five years.

Wholesale trade, according to the Board's index, increased 12 per cent in August, which is more than usual for that month. Sales of clothing, dry goods and shoes showed substantial gains as compared with July and were larger than a year ago.

Retail trade also increased in August and sales in all reporting lines were larger than in August 1922. Department store sales in all sections of the country averaged 12 per cent above last year's level.

Sales of the leading ten-cent chain stores systems aggregated $25,551,000 in August as compared with $23,919,000 in July and $21,676,000 in August a year ago. Mail-order sales by the leading retail mail-order houses totaled $22,334,000 as against $22,453,000 in July and $17,709,000 in August 1922.

Metal Industries and Automobiles

It may seem a little strange that disappointment should be expressed over this record, but the metal industries are mainly responsible for it. Pig iron sales have been low for several months, and production is continuing to decline. Rogers Brown & Co. say:

> **The waiting attitude of the buyers apparently is due to one of two causes, either the expectation of lower prices or the uncertainty of operating conditions. Based on present costs, it is hard to foresee lower prices. Merchant iron is today selling in most districts at below cost. As to operating conditions, the foundries seem to be well taken care of for the present, but their stock of iron must be low. Almost invariably requests for shipments stipulate that the iron must be shipped immediately.**
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> **The end of September will see quite a change in blast furnace operation. There will not be as many furnaces operating as was the case at the end of August. This further curtailment is bound to show a decrease in stocks on furnace yards and possibly bring about more strength in the pig iron market than exists today.**

This situation indicates that production in the fore part of the year was heavy enough to enable consumers to accumulate stocks, and that they did so in anticipation of higher prices. Pig iron prices were at the peak for the last year in March, when northern iron was selling at about $32 per ton and Birmingham iron at $27. Production figures for 1923 reached the high point in May with a daily average gross tonnage of 124,764. This compares with the 1913 record of 92,363 gross tons, made in February of that year. Prices now are at $25 or under for northern iron and $23 or under in Birmingham. Nevertheless, pig iron production in August was 3,435,000 tons against 1,816 tons in that month of 1922.

Steel production still is well maintained, but the September revival has not been all that was hoped for. It appears that the regular trade very nearly covered its wants last Spring for the entire year, and the mills are still operating on those orders, while buyers are holding off new orders, anticipating a break in prices. The industry is operating at 80 to 85 per cent of capacity, but orders on hand are diminishing, and the question whether or not consumption is falling off will soon be determined. The industry has been operating throughout the year at the highest rate of production ever reached, and it would not be strange or alarming if some recession was experienced. It must be considered that goods are now going to consumers on a higher level of prices than those which prevailed last year or in the Spring of this year. The Minnesota Implement Dealers' Association is authority for the statement that there have been three advances in prices of farm implements since the beginning of this year, 10 per cent in January, 10 per cent in May, and 5 per cent recently, and rising labor costs in steel and other materials and in the implement industry itself are responsible.

The movement of copper into consumption has been at a good rate, running above pre-war figures in the last two months. Buying, however, has been from hand to mouth, and production apparently a little more than could be readily absorbed, at a time when everybody is avoiding long commitments. At any rate, the price has been weak, in the last week of September about 13½ cents. This is below the pre-war price and below cost to most producers. Copper, although largely produced by financially strong companies, is a commodity the price of which is as unstable as the price of wheat. Copper has been as badly off most of the time since the war as any farm product. If the government is to adopt the

policy of assuring profitable prices to every industry, the producers of copper, pig iron and oil will be in line with the farmer to file their claims.

The automobile business holds up in a remarkable way. Production in August, including trucks, was 348,733, or 28 per cent over that month last year, and for the eight months ending with August was about 2,700,000, or about the number reached in the full year 1922. Factory capacity is large, and competition is very keen, for everybody is striving for the volume output which gives low costs. Several price reductions have been made recently and more are reported as impending.

The Textile Industries

In the textiles, conditions are much confused. In cotton goods this results from uncertainty about the size of the crop of raw cotton and whether consumers will buy the goods freely on the basis of present costs. The mills could book plenty of orders at prices that would have been acceptable two or three months ago, but they cannot cover their requirements for raw material and get out even on that basis now. Illustrating changes since last April, when in a scare about the crop raw cotton went above 31 cents per pound, 64/60 print cloths which sold then as high as 11¼ cents dropped to 8⅜ cents and are now about 10 cents. In the latter part of July the price of raw cotton dropped below 22 cents per pound and since then has been above 30 cents for a day or so, and is now about 28½. Obviously these are difficult conditions for manufacturers of cotton products and traders in them. Nevertheless, cloth production is much above what it was several months ago. The consumption of cotton in August was 491,604 bales, against 461,575 in July and 527,404 in August last year.

In woolens, men's wear is having a very slack time, but dress goods are in good demand. The trouble in men's wear is said to be due to the backward Spring which left a lot of Spring goods on dealers' hands, which are now in the way of new Spring business. The silk business has been affected by the destruction of raw silk in Yokohama, and the situation is yet unsettled.

The Labor Situation

There were 953 wage increases against 3 reductions in the United States, from March 15 to September 14, according to figures compiled from unofficial reports by the National Industrial Conference Board. Between August 15 and September 14 there were 22 increases and one reduction. Of these increases, clothing workers got from $5 to $10 a week increase, anthracite miners 10 per cent, glaziers 5 to 18 per cent, iron and steel workers 10 per cent, leather men 10 per cent, railroad workers 1 to 3 cents an hour, street railway employes 20 per cent, teamsters and chauffeurs $5 a week, and theatrical workers 7½ to 15 per cent.

This authority has completed an investigation brought down to July 1923, which shows that American labor is receiving higher "real wages" than at any time since 1913, not even excepting the peak period of 1920. The cost of living in July, the latest time when comprehensive figures were available for a survey of this magnitude, was 61.9 per cent above the 1914 level, and this was a decline of 20.8 per cent from the peak of high prices in July, 1920. The chief item holding up living costs in the cities is rent, which is 75 per cent above the 1914 level.

The worst thing about the wage increase given the anthracite miners is that it will be a precedent for claims by the bituminous miners when their contract expires next Spring, and a rise of bituminous prices will affect costs in all the industries and in transportation. The trainmen's brotherhoods are about to demand a restoration of the 12 per cent reduction made in their wages in 1921, which coincides with a most urgent demand by farm organizations for a reduction of freight charges.

The only justification for an increase of trainmen's wages at this time is that the building trades, coal miners and perhaps a few other highly organized trades are receiving wages in comparison with which the wages of train men seem low. There is no good reason why a plasterer should receive higher wages than an engineer who drives a railroad train, but the argument now comes the other way around, i. e., that the engineer is entitled to wages comparable to those of the plasterer or bricklayer. It is the argument of the vicious circle. If the costs of fuel and transportation are raised higher, every item in the cost of living will cost more, and the disparity between industrial wages and farmers' incomes will be incrceased. The farmers who are moving on Washington for relief had better give their attention to the Railroad Labor Board.

Crops and Markets

The September report of the Department of Agriculture lowered the previous estimate of the Spring wheat crop by 4,000,000 bushels, bringing the total of Winter and Spring wheat to 789,000,000 bushels. The estimates for all crops for the year, based upon information as of September 1st are as follows, in bushels unless otherwise stated:

	1923	1922
Winter wheat	568,000,000	542,000,000
Spring wheat	221,000,000	277,000,000
All wheat	789,000,000	818,000,000

Corn	3,076,000,000	2,875,000,000
Oats	1,312,000,000	1,255,000,000
Barley	199,000,000	194,000,000
Rye	64,800,000	79,600,000
Buckwheat	13,500,000	13,500,000
White Potatoes	390,000,000	438,000,000
Sweet Potatoes	93,500,000	108,000,000
Tobacco (pounds)	1,551,000,000	1,353,000,000
Flaxseed	19,400,000	11,700,000
Rice	32,600,000	38,800,000
Hay, tame (tons)	81,900,000	92,900,000
Hay, wild (tons)	16,100,000	15,800,000
Sugar beets (tons)	6,500,000	5,260,000
Apples	190,000,000	207,000,000
Peaches	45,400,000	55,600,000
Peanuts (pounds)	655,000,000	691,000,000

The situation in wheat is very unusual. The world supply is ample to say the least and the export situation so far as North America is concerned is dominated by Canada, which has more wheat for export than any country in the world ever had before. The estimates on the Canadian crop this year have been very erratic. In July the fine prospects in the prairie provinces caused unofficial estimates of 500,000,000 bushels to be made, but at the critical stage of the crop rust developed in Southern Manitoba and Saskatchewan and caused so much damage that in an estimate issued August 14 the official bureau of statistics at Ottawa placed the yield at 383,000,000 bushels or about 17,000,000 under last year's crop. On September 12, however, the official bureau issued another estimate, placing the yield at 470,000,000 bushels. It appears that although Manitoba has suffered severely and Saskatchewan seriously, Alberta has a wonderful crop. Some private authorities are of the opinion that the official bureau has overdone the estimate both ways, and that the truth is between 430,000,000 and 450,000,000. At any rate the second estimate hit the wheat market a hard blow.

The acreage of the Argentine wheat crop is about ten per cent over last year's, and to this date growing conditions are reported favorable. This crop comes to harvest in December.

Minneapolis the Highest Wheat Market

However, the wheat situation is beginning to pick up in the United States and east of the mountains, for it looks as though this part of the country had no wheat to spare. The output of durum wheat, which is 40,000,000 to 50,000,000 bushels, is always exported, being used for macaroni and spaghetti, and the surplus of the Pacific Coast is always exported. These two export items are likely this year to amount to approximately all the wheat we can spare. It is a question whether the United States east of the mountains has any more than enough wheat to make its own bread, and as a result of the milling demand we see the Minneapolis market at this time about 10 cents above Chicago, with Chicago, St. Louis, Kansas City and Omaha all on a basis above the export level. Wheat cannot be shipped at this time from any point east of the mountains to Europe at a profit, and on the December delivery Minneapolis is about 21 cents per bushel above Winnipeg. The closing price of December wheat in Minneapolis on September 28 was $1.17⅜ and in Winnipeg $0.96¼. One year ago the price in Minneapolis was $1.04⅝ and in Winnipeg 94⅛ cents. It must be considered, however, in comparing Minneapolis and Winnipeg that the Canadian wheat is worth about 8 cents per bushel more for milling than the corresponding grade on the Minneapolis market. Also the exchange charge accounts for about 2½ cents.

The corn crop was touched by frost in some localities by a cold wave in September, but the loss probably is not great. The market is acting in a quite satisfactory manner, with old corn now above 90 cents in Chicago and the December delivery above 70 cents. These figures compare with 59¼ cents for December corn in Chicago one year ago. All the grains, and nearly all farm products are above the prices of a year ago, indicating that the much talked of crisis is in the way of natural disappearance.

Live Stock

The live stock markets also are improving. Western range cattle, in which the depression has been greatest, are about $1 per hundred weight higher than a year ago. Feeders have been selling well and an immense distribution of them has taken place, showing that the farmers have regained confidence. The best cattle are commanding 12 to 13 cents.

The hog market has weakened under the heavy receipts, but remains above the July level. The receipts of hogs, in the twelve principal markets in four weeks of July aggregated 2,707,102, and in the following four week of August, 2,316,792, and the rise which took place in August was a demonstration of how readily prices respond when demand and supply are in the balance. The secret of good prices is in this, rather than in any legislative regulation.

The Cotton Crop

At this writing the trade is anxiously waiting the Government estimate, October 1st. The September forecast was for 10,700,000 bales; in some parts of the crop territory conditions have improved in the past month and in others they have deteriorated. The Texas crop, which was thought at one time badly injured by drought has improved very much. This is the third short crop, and the carry-over is small; moreover, the most disturbing thing about it is that it has been grown upon the largest acreage ever harvested, according to the Government estimate, which tells the story of the boll weevil rav-

ages and the menace of that insect in the future. One thing, however, the boll weevil has effectually accomplished; it has eliminated the possible over-production of cotton as a factor in the agricultural situation. Although, of course, the cost of production is high by reason of the low yield per acre, the income of the cotton-growers probably never has been as high, outside of war years, as it will be this year. Texas with its good crop is facing prosperity, at least so far as the cotton-farmers are concerned.

The effect of high-priced goods upon consumption is yet to be seen. The cotton goods industry of Lancashire is still running half time on American cotton, and the London Times of September 14th comments upon the situation as follows. What it says may be interesting reading for the American farmer who may have been led to believe that he has the only troubles in the world and that some malign influence is responsible for them:

Unfortunately for Lancashire, it happens that, broadly speaking, the raw materials of the cotton industry are purchased from the wealthiest nations in the world, while its products are sold to the poorest, and it requires little knowledge of the conditions existing in the world today to see that at the present time these conditions place the cotton trade at an enormous disadvantage, a disadvantage that is greatly accentuated by the high price which raw cotton has commanded for some years. It was pointed out recently by Mr. J. A. Ormeod at a meeting in Blackburn that shirtings for India have increased in price by something like 120 per cent, while, on the other hand, India is receiving for her cereals a price equivalent to an increase of only 33 per cent. In these circumstances, India, our best customer, is unable to purchase the quantity of Lancashire cottons that it absorbed before the war. At the same time China is suffering from internal commotion, and with Turkey we have only recently made peace. These are the principal outlets for the British cotton trade, and the fact that they are unable to purchase as freely as formerly is sufficient explanation of the restricted demand for Lancashire products and the consequent unemployment in the cotton trade.

Relief for the Wheat Farmer

The advance guard of the advocates of legislative aid for agriculture has reached Washington. The measures proposed are mainly in behalf of the wheat grower, who in the region where the crop is short and the quality low unquestionably is in a deplorable position. Nevertheless it is difficult to see what can be done for him beyond the measures that have been passed to supply him with credit where practicable. Most of the proposals, such as reduction of freight rates to the seaboard or formation of a corporation to make sales abroad, look to foreign markets, but as indicated above there is no use in looking to the foreign market for wheat in the Middle West this year. The price in Minneapolis today is above the possibility of profitable exports with any suggested reduction of freight charges. Canada, with an enormous crop, of high quality, and with the price in Winnipeg 20 cents per bushel under the Minneapolis price, is supplying the foreign market and will be presently reenforced in doing so by Argentina and Australia. It is argued by the persons who advocate freight rate reductions that the reductions would be added to the price received by the Western farmer, but the rate reductions would all be needed to place Dakota wheat on a parity with Canadian and enable it to compete at all. Furthermore, if such reductions were made it is probable that they would affect prices in Canada and elsewhere. The present lake and rail freight charge, Duluth to Chicago, is not over 15 cents per bushel.

The Tariff as a Factor

Another proposal which recognizes the fact that our markets are not on an exporting basis, proposes to make the most of that strategic position by raising the customs duty on wheat from 30 to 50 cents per bushel.

A curious incident in this connection, according to the Northwestern Miller, is that the State-owned flouring mill, at Grand Forks, North Dakota, has been importing Canadian wheat under the 30 cent duty, for mixing with North Dakota wheat. Being asked for an explanation of this treasonable act, the manager said that he found it advantageous to raise the grade of the flour, as he was enabled to get a higher price. It seems quite possible that an act like this in the case of a State-owned mill might become a political issue. What right has a mere business manager to say that Canadian wheat will make better flour than North Dakota wheat, especially when it is considered that Canadian flour mills may advertise the fact?

Remedy Is Grow Less Wheat

There is another consideration which must not be forgotten in anxiety to aid the wheat-grower in his present predicament, which is that there can be no permanent help for him without reducing the acreage in wheat. The only way wheat can be grown advantageously in this country is in rotation, as a feature in diversified farming, which sustains the yield and quality. Originally the yield of wheat on our Western prairies was as large and the quality as fine as any Canadian product, but continual cropping without rotations not only causes a loss of yield, but a loss of protein, which is the quality millers are willing to pay for. Nature rebels against the one-crop system. Moreover, the Canadian competition is there to stay, with large areas of new lands to be brought in if the price should rally, and there is Russia to be reckoned with. And finally there is such news as the following from the last issue of the Northwestern Miller:

It will astonish no one at all familiar with conditions in the Southwest if, after all the propaganda for decreased wheat production, this year's sowing in Kansas and Oklahoma, and possibly Nebraska, will be fully equal to last year's. Present prospects are for the seeding of an area of 9,000,000 to 10,000,000 acres in Kansas alone, while well-informed people suggest the possibility of not less than 12,000,000 acres being sown in that state. Oklahoma, with a wonderful crop harvested this year, is not likely to decrease its acreage; and with favorable seeding conditions in western Nebraska, farmers in that section are likely to forget low prices in favor of their annual gamble for a wheat crop.

The primary reason for the change in the growers' attitude toward wheat production is the ideal soil condition. Not in 20 years has there been such a general and generous supply of moisture over the whole of the western wheat district. The ground is saturated to an unprecedented depth, and offers a seed bed never before excelled. Furthermore, the severe fall and winter killing this last season left millions of acres to lie fallow through the summer, adding greatly to the temptation to plant wheat.

In view of this information, what would be the probable effect upon production of giving a guaranty of $1.75 per bushel?

Nearly all of the advocates of aid for agriculture fail to recognize the plain fact that under the high prices ruling in war-time, agriculture was stimulated to a scale of production which now overloads the markets, and that the remedy for this is in the very movement from farms to the town industries which they so much deplore. Natural tendencies will restore the equilibrium if allowed to do so, but these advocates are working to keep everybody on the farms and to continue the production of certain farm products on a scale that is undesirable.

The Oil Situation

The oil situation is less tense than a month ago, owing to general opinion in the industry that the price reductions which have been made in crude oil and gasoline will be sufficient to establish an equilibrium. The fluctuations in the price of crude oil are indicated by the following changes in the mid-continent field: The peak price was $3.50 per barrel on March 1, 1920, from which a recession occurred in the general slump, promoted by increasing production, to $1.00 per barrel in mid-Summer 1921, but in November, 1921, the price was back to $2, and in August, 1922, down to $1.25. In November, 1922, the basis of pricing was changed to the graded system with payment according to gravity, and the three grades ranged from 90 cents to $1.80; from this, prices were advanced until on February 17 last they ranged from $1.80 to $2.60; in recent months reductions have been made until the range is now from 90 cents to $1.75. Drilling operations have been largely reduced, and it is believed that production is now under control. The output is still much above present consumption, but with the prospect that production will not increase, capital probably will be available to store the flow until consumption catches up. The output in California and in most of the fields in the past month has shown a slight decline.

The Japanese Disaster

The Japanese disaster, in loss of life and property values, is the worst calamity that ever has befallen any country, excepting war and social revolution, but while inflicting terrible losses upon Tokio, Yokohama and the neighboring district, it has not to any very serious extent affected the industries of the country. Unfortunately for the property-owners the losses were to only slight extent covered by insurance ,the experience of insurance companies in the San Francisco earthquake and fire having prompted them since to insert clauses in their policies which expressly except losses resulting from earthquakes. This is a perfectly legitimate practice when policies are intended to cover ordinary fire hazards only and charges are not adjusted to the earthquake hazard. The latter is almost uninsurable at a rate which the public would care to pay, because of the difficulty in determining and distributing the risk.

The effects of the disaster outside will be felt through various and more or less opposing influences. The most obvious effect is the demand for building materials and goods to take place of the stocks destroyed. Lumber prices are stronger under this influence, and no doubt a large amount of steel and hardware will be imported. On account of the absence of insurance funds, it is probable that the Japanese Government will grant a loan of credit for reconstruction purposes, and that a loan will be offered in New York and London. It is interesting to note that if the losses had been covered by insurance in New York and London companies, the latter would have sold reserve securities in order to make payments, while in the absence of insurance, securities will be sold likewise. Thus, so far as the money-market is concerned, the effect is about the same. In either case modern finance distributes the immediate burden, which will be ultimately covered by the earnings of the property replaced.

It is well worth noting that the value of national character stands a people in good stead in an emergency like this. The value of external Japanese bonds was disturbed slightly for a day or so, while the extent of disaster was unknown, but quickly recovered. Japanese credit commands confidence in all financial markets, primarily because nobody doubts the intention of the Japanese people to pay.

The Bond Market

The bond market has been quiet, the big Dominion refunding issue in Canada attracting a good deal of attention. The leading

issue of the month on this side of the line was $20,000,000 Union Pacific First Lien and Refunding 5 per cent bonds, due June 1, 2008, price 99½, to yield 5.03 per cent. This issue was immediately and largely oversubscribed.

Other important issues were $10,000,000 Pacific Gas and Electric, First and Refunding 5 per cent bonds, due in 1952, price 95½ to yield 5.80 per cent, and $10,000,000 Willys-Overland Company First Mortgage 6½ per cent bonds, due 1933, offered at 98, to yield 6.75 per cent. Both of these issues were well received.

The market as a whole was a little lacking in strength during the month, Dow, Jones & Co.'s list of 40 bonds closing 1.22 points below the end of August level and 5.18 points below the end of September a year ago.

The Dominion of Canada Loan

The event of the month was the refunding operation on behalf of the Dominion of Canada, entered upon for the purpose of meeting the Victory loan of $172,000,000, issued in 1918 and maturing November 1, 1923. On the basis of population this approaching maturity would be comparable in size to one of approximately two and one-quarter billions in the United States. Moreover, the Canadian population is to a larger extent rural, the country is not so far along in development and it may be assumed that a smaller proportion of the people are normally in the market to buy a 5 per cent security.

In planning to take care of the approaching maturity the Dominion Government desired to place the refunding issues so far as possible within Canada, but it could not expect that the entire sum would be raised at home. An arrangement was entered into with the Dominion Securities Company, Wood, Gundy & Co., the National City Company of Canada and A. E. Ames & Co., all Canadian investment houses, under which these companies bought outright $50,000,000 of the proposed issue and were given an option upon the remaining $122,000,000, their services being thus enlisted to distribute so many of the bonds as possible in Canada and place the remainder in the United States or on the London market. The contract for the sale of $50,000,000 independent of exchanges gave reasonable assurance that the entire amount of the maturing loan would be cared for. The houses above named enlisted the co-operation of 37 other Canadian banks and bankers, and through them 170 investment houses doing a retail business were brought into the organization and finally by means of the patriotic appeal the old bond-selling organization by which the Victory Loan was distributed in 1918 was revived and enlisted in the task of placing the new bonds.

A Great Success

This effort to place the refunding bonds in Canada has been a great success. At this writing it appears that no issue payable outside of Canada will be necessary and that 85 per cent of the new bonds will be owned by the Canadian people.

The new bonds draw 5 per cent upon their face, and were offered for cash in two issues, to wit: 20-year bonds, 98.25, and interest, yielding 5.14 per cent; 5-year bonds, 99 and interest, yielding 5.23 for payment in Canadian funds. The holders of Victory bonds were invited to exchange them for the new bonds, receiving in cash the difference between their face value and the purchase price of the new bonds.

The Canadian Government was especially desirous of placing these bonds at home on account of the discount which has prevailed in recent years upon Canadian funds in New York, and which at the present time is about 2½%. This discount is caused by an excess of payments from Canada to the United States over payments running in the opposite direction, together with the fact that Canada is unable to convert her favorable balances in other parts of the world into New York funds except at a discount. In no sense does it reflect upon Canadian credit, but results from the fact that drafts on the United States are at a premium everywhere. For Canada to increase her borrowings in the United States under these conditions would involve an exchange charge upon every interest payment, and the additional demand for New York exchange would tend to raise rates still higher. As this unbalanced situation is to the disadvantage of the United States quite as much as to the disadvantage of Canada, the success of the internal flotation is reason for satisfaction here as well as there, and a double reason for congratulating Canada upon this splendid showing of her ability to finance herself.

The war was a costly undertaking for Canada. When she entered it, the total indebtedness of the Dominion was about $350,000,000; on the 1st of January, 1923, it totalled $2,516,929,000. However, no Canadian ever has been heard to express regret over the participation of his country in the war. Of the above debt, $1,969,995,000, was held in Canada on January 1 last and the remainder outside. That portion of the interest payments which accrues upon the debt held at home is paid out within Canada and signifies no transfer of wealth from the country. The debt burden will diminish relatively with the increase of population and wealth in the country, which is certain to be very great in the coming years. There is no occasion for anybody to be pessimistic about Canada. Her credit has the best

kind of backing—abundant natural resources and a population of the sturdiest and most reliable character.

World Trade Conditions

Sir Arthur Balfour, a manufacturer of Sheffield, England, President of the Associated Chambers of Commerce of Great Britain and personally a leading figure in British industry, has been in the United States recently and returning was interviewed. He is quoted in part as follows:

In the course of conversation he said he would not change England's position for America's today for anything. He thought that fundamentally our situation was much sounder than theirs. "The cost of living and the cost of production in America," he proceeded, "is so high that I am perfectly certain that, except in a few selected articles, we can compete with them for the export trade of the world. They have just passed through a slight slump, but I think they are likely to have a fair internal trade for the next eighteen months. After that I think they will go through three or four depressed years, which will be the only method of re-establishing the economic situation and getting them back to a competitive basis. At the present time the wages being paid are so high that building is much restricted and rents are impossible. They are paying plasterers $16 (about £3 11s.) a day. The decision of the Steel Corporation to work eight hours instead of ten is further increasing the cost of steel, and I found that many of the most thoughtful business men and financiers were very anxious about the future position of the country.

America is depending very much on the sale of her wheat crop and her cotton crop to Europe, and has only just begun to realize that other parts of the world are in a position to supply the necessary wheat to England, for instance, and that in view of the Fordney Tariff and the manner in which it is restricting trade with them England is naturally compelled to buy her foodstuffs in markets where she can create a favorable exchange by trading.

It is well to know the opinion of competent outside observers upon our affairs, and there is much in the foregoing which corresponds to common opinion in business circles here. Indeed, that is the saving feature of the situation. The check given to expansion last Spring was due to the general belief that the country could not with safety move up to a higher level of costs and prices. The best answer to the distinguished gentleman's prediction is that a crisis which everybody is on the lookout for is not likely to be calamitous.

It seems quite appropriate in this connection to quote from an address by the President of this Bank before the annual convention of the American Bankers Association, at Atlantic City, last week, as follows:

But while we enjoy the present prosperity, let us not be unmindful of the difficulties American business must meet in the next few years when conditions the world over, and especially in Europe, become stabilized and their business and trade become active. Our problems of the future will arise, not from a diminishing trade by other countries, but from their recovery and reappearance as competitors, and we need to prepare ourselves for the inevitable competition of other countries, and especially European countries, in all markets of the world, including our own. Foreign competition is not altogether without its benefits, for it acts to stabilize the price level, to restrain the tendency to inflation, and to keep industry in touch with production costs abroad, but, to say the least, it is trying. I am not afraid of the ability of this country to compete in the long run and to secure an ample share of world trade, provided that we now recognize that that competition is coming, that it is going to be vigorous, and that to meet it we must loosen every restraint to American industrial development to the end that in this country there may be an efficiency which will overcome a higher standard of living and still make us able to do business on the world's price level.

Proposal Urged

We want enterprise relieved of the fearful penalties to which it is now subjected.

We want a revision of the present income surtaxes that dam the natural flow of wealth in the channels of wealth producing enterprise and divert it into tax exempt investments that mean state and municipal non-productive development and waste.

We want economy in Government expenditures that will bring relief from taxation as fast as it can be given.

We want the oppressive hand of the Government taken off of business, and freedom given to individual enterprise.

We want the Government out of the shipping business where, at enormous cost it has been proven, at least, that such oppressive measures as the Seamen's Act prevent any profitable operation of an American merchant marine—and we want the Government out of every other business because every experiment in Government management demonstrates its disqualifications in that field.

We want to see a chance given to our railroads, which constitute the very arteries through which commerce must flow. We want recognition given to the fact that these railroads, although laboring under great difficulties, have been handling the largest volume of traffic in the history of the country in a most efficient manner. You and I know that the railroads cannot go on indefinitely financing for the purchase of equipment and the improvement of their service through borrowing 98¾ cents of their requirements and obtaining 1¼ cents from stockholders, which is the record of the past four and one-half years.* You and I know that railroad credit must be so restored that a portion of new capital requirements may always be met by the sale of stock, and to do this railroads must be allowed to earn profits that will give their stocks a standing high enough to attract new money in a competitive market. I view it as one of the most important conditions for the future that the guarantees contained in the Esch-Cummins Railroad Act shall be maintained.

The Economic Difficulties Ahead

We want, above all, an ever increasing understanding of the economic difficulties we must overcome.

There are certain conditions often regarded as favorable which will actually work to our disadvantage under the stress of competition. One of them is our excessive accumulation of gold which is growing from month to month. Every banker is familiar with the fact that any increase of gold reserves tend to increase the expansion of credit, that a general expansion of credit produces higher prices, and that higher prices will weaken our position in world competition. The economists and financiers of Europe, as you well know, are confidently waiting for this influence to turn the balance of trade against the United States, start a flow of gold from our coffers to Europe, and produce the hoped-for industrial revival over there. We have a very real problem on our hands, gentlemen, in determining how to accomplish a redistribution of this gold without going through the usual round of credit inflation, rise of adverse trade balances, falling prices, and credit disturbance. The symptoms of last Spring were alarm-

* The 1¼ per cent raised by the sale of capital was practically all comprised of preferred stock issues by the Illinois Central and Chesapeake & Ohio companies.

ing, but the good sense of the business community averted the danger for the time being. That danger will, however, continue to over-hang as long as gold continues to flow into our already abundant reserves. We are in a position where, with such national debt payments as are being made to us, favorable trade balances have a real element of peril in them, and yet, at the same time, we are not wanting unfavorable balances that would signify industrial depression. We are in a dilemma, the chief difficulty of which is in maintaining price equilibrium and at the same time maintaining trade equilibrium.

The discussions have been so widespread that I am sure that there is no business man who does not understand that the indebtedness of foreign governments to the Government of the United States, to the extent that payments are made thereon, is a factor having a bearing upon the trade situation. Every payment involves the creation of credits in this country which can be accomplished only by shipping gold or goods to us. The appearance of a government in the exchange markets as a buyer of exchange on the United States means competition for means of payment here, and involves higher exchange rates and consequent higher prices on American products to foreign customers.

These conditions arising out of unbalanced international relationships caused by the war, serious as they are, constitute no reason why we should not go on with regular business and with full confidence, but they do call for the watchful attention of bankers and business men. They emphasize the importance of the development of a super-efficient commercial condition throughout the country that we may over come the obstacles which American trade must inevitably meet. They emphasize the need of a greater degree of harmony in industry and a greater understanding of the advantages to both the employer and wage-earner of that production efficiency which is at once the guarantee of low costs, of command over markets, and of wages of high purchasing power.

Conservative Business Policies

It is the general view of economists that with the recovery of industry to normal conditions over the world and the stabilization of the exchanges, the trend of prices will be downward, but this does not signify such a fall as is experienced in a business crisis. It signifies rather the steady pressure of effective competition, with improving methods and lower production costs. There is a general belief that downward readjustments involve business stagnation and unemployment, and this is true where the changes are precipitate, as in 1920-21 and 1873. In those years, however, the fall was aggravated by the accumulations of goods, excessive expansion of credit and the losses resulting therefrom. We venture to hope that by conservative policies, an early repetition of these experiences may be avoided. We may be disappointed, but at the moment the spirit of caution certainly is in command.

If the tendency of world prices is downward, we shall have to conform to it. That will mean that the temptation to speculation afforded by a general state of rising prices will be absent, but it does not necessarily mean a state of depression. The daily wants of the population will not be suspended, and they constitute the stable, enduring, motive to business. We get accustomed to thinking that times are bad unless people are trying to buy goods faster than they can be made, from fear that they are going to be higher. People have been wondering all Summer about the state of business, because last Spring, inspired by alarm, purchases were unusually heavy and since then, as a necessary consequence, have been comparatively light. It is not to be supposed that a perfect state of balance in industry and in prices can be maintained, or that the general level of prices always can be rising, but on the other hand we should not think that every spell of relaxation or of receding prices involves the experiences of 1921.

The World Level

Current commodity quotations do not indicate that the general level of prices is higher in the United States in relation to pre-war prices than in Great Britain. The Federal Reserve Bank of New York maintains an index table of the prices of 20 basic commodities in this country and England in which 100 represents 1913 prices; in this table the latest figures for this country are 151.8 and for England 155.6. It is true that these are basic commodities, and the figures cannot be taken as representing the general range of manufactured goods; moreover they are commodities which in large part we produce and England imports, but the figures show that at least in this respect we are not at a disadvantage.

The International Labor Office of the League of Nations maintains a set of index numbers showing cost of living calculation of eighteen countries, and according to these but five countries are below the United States at this time, and they are agricultural countries, to-wit: Australia, South Africa, India, New Zealand and Canada. Furthermore, the movement of our manufactures into foreign markets in recent months has given no sign that as yet we are out of line with world prices on finished goods. Thus in the month of August manufactures constituted 42 per cent of our exports, as against 35 per cent in that month of 1922. When these exports begin to decline the test of our ability to meet the conditions will come. Leaving out the question of national policies, the maintenance of our position will depend upon the readiness with which our producers adapt themselves to the conditions. It will not depend upon wage rates alone, but upon general co-operation in methods of production which give low unit costs. The wage-earners of this country have a larger stake than the employers in keeping the industries busy, because they get the greater part of the proceeds, and the problem is up to them quite as much as to the employers. The most serious danger exists in the wild agitation of the time, which tends to create antagonisms, take

leadership out of the hands of those who have won it by the competitive test, and throw the industrial organization into confusion.

The International Balance Sheet

Is the United States a debtor country in the international accounts? The headlines which have been placed by numerous newspapers over a recent computation by the Department of Commerce of the international balance sheet of this country in 1922, would seem to convey the idea that the United States was in a debtor position, but figures do not support this view.

The Department of Commerce has made an interesting computation, which we believe to be the most complete and satisfactory that has been made since the war, of our international receipts and payments. Obviously a Department of the Government is able to obtain the information for compiling such a statement more readily and completely than private investigators are able to do so, and it is to be hoped that this initial effort will be followed up by regular reports hereafter.

In an explanatory foreword, Secretary Hoover summarizes some of the principal features as follows:

> **Our international balance sheet is not composed alone of the values of merchandise and precious metals that are imported and exported. During the last two decades the volume of transactions which, for lack of a better term, are referred to as "invisible" exports and imports have become of steadily increasing importance.**
>
> **These items, embracing the movement of capital and the movement of current items such as interest, remittances of emigrants, tourists' expenditures abroad, and so on, have now come to be of such volume as entirely to dominate what is known as the "favorable" or "unfavorable" trade balance from merchandising account. For instance, for 1922 there was due us from foreign countries on account of the excess of our exports over our imports of merchandise an amount of $754,000,000. However, when we take into account such "current invisible" items as the movement of interest, remittances of emigrants, tourists' expenditure, etc., we find that our citizens have sent to or spent in foreign countries a net balance of about $425,000,000 more than we received on such accounts, and thus the balance due us for merchandise is reduced to about $329,000,000. As affecting this sum we have received about $246,000,000 net gold and silver imports and in addition there has been the invisible movement of loans and credits. We have exported capital in the shape of purchases of foreign securities, etc., over and above the imports of capital of the same character to the net amount of about $669,000,000 during the year 1922, and were there no previous obligations to be accounted for this would amount to an investment abroad of more than the amounts due to us.**

The table of inward and outward payments follows:

Estimated International Balance of Payments, 1922, in Millions of Dollars

Inward or credit movements (exports):				
Capital items—				
Foreign loans matured and paid	**78**			
Foreign securities resold abroad	**189**			
American securities sold abroad	**81**			
Current invisible items—				
Governmental receipts from foreign nations*		**170**		
Interest on American capital abroad		**227**		
Freight payments receivable on exports		**71**		
Visible items (specie)—				
Exports of merchandise			**3,867**	
Visible items (specie)—				
Exports of silver				**63**
Exports of gold				**37**
Total	**348**	**468**	**3,867**	**100**

***Part of the governmental receipts should properly be included under capital items, as they represented payment on the principal of foreign loans.**

Outward or debit movements (imports):				
Capital items—				
New foreign bond issues in United States (excluding refunding loans)	**637**			
Foreign securities issued abroad but sold to United States	**326**			
American securities formerly held abroad, sold to United States	**34**			
Current invisible items—				
Governmental expenditures abroad		**29**		
Interest payable on foreign capital in United States		**100**		
Freight payable on imports		**64**		
Immigrants' remittances and European relief		**400**		
American tourists' expenditures		**300**		
Visible items (goods)—				
Imports of merchandise			**3,113**	
Visible items (specie)—				
Imports of silver				**71**
Imports of gold				**275**
Total	**997**	**893**	**3,113**	**346**
Balance	**—649**	**—425**	**+754**	**—246**

What the Table Shows

A little additional calculation will show that the net debit items of this calculation aggregate $1,320,000,000 against a net credit item of $754,000,000, leaving a final debit situation of $566,000,000. This is the showing which has been hastily accepted as placing this country in the debtor position on the year's business. No such conclusion is drawn by Secretary Hoover in his foreword, or by his aides anywhere in the report, although the Secretary in a speech at Toledo last year seemed to use similar figures to support some such view. It is true only in technical sense.

The table is a balance sheet which shows as nearly as a calculation can be made how the in and out items of our trade and financial dealings with the rest of the world in 1922 compared. As Mr. Hoover says in his summary, we sold abroad $754,000,000 more than we bought, but for tourist expenditures, immigrants' remittances, charity, interest payments, steamship charges, etc., we sent abroad $425,000,000 more than we received on these accounts, thus reducing the balance created in our favor on merchandise to about $329,000,000. Because they were indebted to

us they sent us a lot of gold, which is lumped with silver at $246,000,000, although the silver would be properly classified with merchandise (its treatment as specie in government statistics dates back to the time when silver was a money metal). If we treat this $246,000,000 as reducing the balance of $329,000,000 coming to us, the amount remaining our due is $83,000,000.

There remains to be taken into the account the balance on investments in and out. As to these, as Mr. Hoover says, we exported capital by purchasing foreign securities, etc., over and above the imports of capital of the same character to the net amount of about $669,000,000."

Debtor or Creditor

The only way in which these figures can be said to place us in a debtor position for the year 1922 is by saying that when we bought $669,000,000 of foreign securities on balance we assumed an obligation to pay for them, which of course is true, but there never was a creditor country that was not in a debtor position in that sense.

It is important in dealing with such subjects to use terms in the accustomed manner and it certainly is not customary to say that a country places itself in a debtor position by buying foreign securities. Payments of that kind are not to be classed with such items of current outgo as expenditures of tourists, remittances of immigrants, foreign shipping charges, etc. Nor, it may be added, do such purchases demonstrate the ability of foreign countries to discharge their debts to this country. They cannot get out of our debt by borrowing more from us; the more they borrow the larger will be their interest obligations in succeeding years.

Reduction of Credit Balances

The report accounts for the apparent excess of "outward or debit movements" by the theory that the foreign securities which we purchased were used in reducing the unfunded balances previously existing in our favor, and no doubt, this is correct. Speaking of the reduction of these balances and of the change in the trade situation, the report says:

The tendencies here shown are in no way alarming; they represent a natural recovery from the abnormal conditions of the war and at the same time show that the United States has outgrown its former conditions as a debtor country and is now able to enter the money markets of the world on equal terms with Great Britain and the other lending nations.

With this opinion we agree.

It may be noted that the report takes no account of foreign government indebtedness to the government of the United States, except as payments were made upon it during 1922.

Features of Interest

The account apparently has been made up in a conservative manner. No estimate for United States currency exported is made, notwithstanding current talk of large sums acquired by the countries of Central Europe. There is reason for believing that such surmises very much exaggerate the facts, as foreign countries certainly cannot take money from this country without giving something for it. No estimate is carried into the table for the surreptitious importation of liquors.

The following paragraphs touch upon various matters treated upon in the report and should clear up much loose talk on the subject:

Between January 1, 1919, and December 31, 1922, our imports of gold exceeded our exports by $795,000,000. But even this huge amount was not enough to pay for foreign purchases of our goods. Consequently they have sold us securities—in 1919, mainly American securities that they had retained from before the war; in 1920, mainly foreign securities originally issued abroad. New foreign securities issued in this market, although enormous in volume, did not exceed maturities until 1921, but have been the most important form of foreign loan in the last two years. In the four years new flotations in the American market amounted to $2,224,000,000, but after subtracting maturing issues of $1,420,000,000 the net amount is only $824,000,000. The American purchases of foreign currency stocks and bonds originally issued abroad exceeded resales to foreigners by $853,000,000; and the repurchase by Americans of American securities held abroad, after deducting resales to foreigners, amounted to $410,000,000. It is worth noting that in both 1921 and 1922 foreigners bought more American securities than they sold. This is probably a reflection of the unsettled condition in some countries of Europe and the consequent insecurity of local investments.

Our foreign investments of all sorts during the four years have averaged about $700,000,000 more than the investments of foreigners in this country; interest on them has grown steadily and is greater than the amount of interest owed to foreigners but not so great as the amount of new investment during the year.

Estimates by qualified persons are to the effect that $75,000,000 or $100,000,000 is the amount annually paid to foreigners as interest or dividends on listed securities. The figure we have used in the tables is $100,000,000. It seems impossible that the principal of American investments held abroad could be less than $2,000,000,000. Some estimates exceed $3,000,000,000.

It is believed that the inclusion of all forms of American investment abroad would bring the total income from such sources well above $300,000,000, but if this figure were used it would be necessary to increase the amount payable to foreigners to cover similar investments.

Imports carried in foreign vessels in 1922 amounted to $1,783,114,532, or 66.5 per cent of total imports. At a ratio of freight charge to value of cargo of 4.5 per cent the freight payable was $80,240,154. Deducting one-fifth to allow for expenses of vessels in American ports, the net sum payable by the United States to foreign shipowners was $64,191,723.

The American Relief Administration expended in 1922 a total of $50,577,505.13 for European relief. This amount includes, however, $11,357,325.13 of relief paid for with Russian funds, as well as $18,662,190 under the congressional appropriation, considered under the head of United States Government international expenditures. Of the remaining $20,558,000, approximately $872,000 were spent either for services in this country—and so do not enter into our balance of payments (for instance, $529,000 administrative expenses in the United States)—or for services already considered under a different head (such

as $50,000 shipping charges to foreign vessels). The net amount, therefore, which must be deducted from our export credits amounts to $19,686,000.

To a question asking "The total value in dollars of foreign currencies other than gold which you have imported into this country during the calendar years 1921 and 1922," the returns showed an import of $3,135,444 in 1921 and $2,990,833 in 1922. It seems unlikely, therefore, that speculative purchases of marks, admittedly considerable in previous years, have played any part in our balance for the past two years.

Concerning bank-balance transfers, a question asking "Your total balances at credit of foreign clients on the first business day of April of the present year and on the same date for 1922 and 1921," brought the following results: April 1, 1921, $403,248,520; April 1, 1922, $446,482,177; April 1, 1923, $442,589,560—in other words, a small increase during 1921, and in 1922 a negligible decrease.

As described in detail by the Federal Reserve Bulletin, the net credit balances due to foreign countries on December 31, 1918, were $882,135,870. These represented chiefly war-time credits advanced by our Government to foreign Governments and not yet used. The figures here presented down to April 1, of this year show that these balances have returned to normal.

The amount of United States currency exported during 1922 doubtless exceeded the amount imported, as in 1919 and 1920, but on account of the impossibility of obtaining a satisfactory estimate of the amount of this excess the item is omitted from the table.

The expenditures of American tourists abroad are estimated at $350,000,000; of foreign tourists in this country, $50,000,000, giving a net balance of $300,000,000.

The 1923 Accounts

The 1923 showing will be quite different from 1922. There was an adverse balance on merchandise account, including silver, in the first six months of $145,000,000. Notwithstanding this fact we have continued to receive more gold than we have exported, mainly from Great Britain, Canada and Germany. Net gold importations in the first six months were $110,000,000. Foreign flotations here have been much smaller than last year.

The adverse trade balance this year has not been due to a falling off of exports, but to an increase of imports, mainly raw materials and caused by the revival of our industries.

Grain Marketing

In the latter part of 1921, Senator Ladd, of North Dakota, secured the passage of a Senate resolution directing the Federal Trade Commission to conduct an exhaustive investigation of the export grain trade, beginning with the harvest of the crop of 1919. The Senator undoubtedly believed that the markets were being manipulated to the disadvantage of the farmer, and did not think it necessary to wait for the evidence before expressing that opinion. The Commission has been working on the investigation for about a year and a half, and published the first volume last year. It contained much interesting information about the grain trade, profits, etc., but nothing sensational. It shows that of the total wheat exports of this country in 1921, 36 houses handled more than 1,000,000 bushels each and the 36 handled 85 per cent. The leading export house, handling 15 per cent, was British, and the second, handling 10 per cent, was French. The leading American house handled 5.5 per cent, and only three American houses handled as much as 3 per cent of the total exports. The average net profit on the export operations of all these companies was 7.9 cents per bushel in 1920 and .003 cents per bushel in 1921. This means that profits were phenomenally larger in 1920 and that the dealers barely escaped a net loss in 1921. The report says that there was a wide variation of results among the different companies, those making a large proportion of their sales in the early part of 1920, showing a high average and those making the bulk of their shipments in the latter part of the year a much lower average. Inasmuch as the fall of prices occurred in the latter part of 1920 and 1921 it appears that the decline was to the disadvantage of the exporters as well as the farmers. Including their operations in the futures these companies made .077 cents per bushel in 1920 and .027 cents per bushel in 1921. On the average they lost money on futures in 1920, when short selling is alleged to have broken the market.

Short Selling Not Responsible for Break

Volume II has been sent to the printer, but the Commission has given out a summary of the findings. It absolves the speculators as well as the exporters from the charge of having started the decline in 1920. Upon this point it says:

The resolution made particular inquiry as to market manipulations, which are most apt to develop, of course, in the speculation on the large futures markets. The Chicago Board of Trade is by far the most important grain futures market in the United States with over 85 per cent of the futures trading during the five-year period 1914-1918.

In order to ascertain what effect the operations of large speculators and cash grain dealers who hedged their mercantile transactions, had on the prices of wheat, the Commission secured the daily trades in wheat futures on the Chicago Board of Trade of twelve such speculators and nine such hedgers for the period July 15, 1920, to May 31, 1922. A number of these traders, moreover, gave detailed testimony concerning their operations.

From the information thus obtained, and from other pertinent data, the Commission concludes that while speculation frequently caused injurious aberrations in wheat prices, the extensive decline in prices of the contract grade of wheat at Chicago from an average of about $2.85 per bushel on July 17, 1920, to a fraction over $1.00 per bushel on September 14, 1922, was due mainly to other factors, including supply and demand, rather than to speculation or manipulation. Speculators and hedgers are especially able to run up prices during the delivery month and, when this occurs, after their future interests are closed out, prices inevitably fall. In general, however, it appears that, although the frequent and temporary fluctuations in grain prices may be attributed largely to speculation, the relatively infrequent, but long-time fluctua-

tions, may be attributed almost entirely to other causes including actual supply and demand conditions.

The heavy decline in wheat prices from July to December, 1920, occurred in a period of comparatively light futures trading in which some of the largest speculators were on the "long" side (i. e., anticipating a price advance) until about October, but thereafter generally on the "short" side (i. e., anticipating a price decline).

On the other hand, the advance of about 60 cents per bushel in May, 1921, in wheat futures was due to a so-called "natural corner", caused largely by a New York exporter standing for delivery on his future hedging contracts of about 2,000,000 bushels of wheat, which was more than could be delivered in Chicago before the close of the month.

The large increase of about 40 cents per bushel in May, 1922, wheat futures during January and February, 1922, resulted chiefly from a wave of speculative buying.

The case of the May, 1921, wheat squeeze mentioned above indicates also that a hedger, under certain conditions, may cause an abnormal price movement of the market quite as extensive as that of a speculator, and that there are less violent price fluctuations on the Chicago Board of Trade when it is used purely as a speculative institution than when used as a market for obtaining cash wheat, because if so used a squeeze or corner may occur. In other words, to avoid artificial prices in futures practically all future contracts, must be closed out other than by delivery of the actual grain because if delivery is demanded even in a relatively small proportion of futures transactions, prices may skyrocket towards the end of the delivery period, and then fall precipitately after its close.

No Combination of Traders

The investigation did not reveal any combination of traders to control the market. The report says upon this point:

While the evidence is clear that speculation during this period resulted, in various instances, in producing artificial price changes in the wheat futures market, the speculators, whose trades were obtained, pursued quite diverse buying and selling policies, although their net position taken as a group indicates that they were usually on the profitable side in different turns of the market.

The fact that all of the speculation did not meet with the approval of the Commission should not be taken too seriously. The two instances that it cites as particularly disturbing are the one in May, 1921, when the price was forced up by purchases of shorts who had sold themselves into a corner, and the one in 1922, when the price rose 40 cents per bushel from January to May, "chiefly from a wave of speculative buying." We doubt if either of these instances will excite public condemnation in the grain-producing states.

The Commission gave some attention to the various suggestions for distinguishing between speculation and gambling, with a view to legislating against the latter, but concluded that "it is questionable whether any of these definitions is capable of practical administrative application." Nevertheless it approves of government regulation of futures trading, "in order to prevent abuses." This expresses the confidence of bureau officials in bureau officials.

Speculation a Stabilizing Influence

Although "a wave of speculative buying" may at times disturb the level of prices, on the other hand there is plenty of evidence that speculative buying regularly supports prices in the months following harvest.

One of the most persistent misstatements afloat is that which represents that the price of wheat is always low immediately after harvest, until the crop has passed from the hands of the farmer, and then is advanced unduly, to afford the dealer large profits. We published in the June Letter a chart of the average monthly prices for wheat on the Minneapolis market over a period of 29 years, showing that the average for the highest month, May, was only about 6 cents above the lowest month, September, a spread which would allow only a very moderate compensation to cover interest, warehousing costs, insurance, shrinkage and risk of market fluctuation. Professor James E. Boyle, of the New York State College of Agriculture, formerly of the State Agricultural College of North Dakota, has made a similar calculation over 59 years which shows similar results, and the Department of Agriculture, Washington, D. C., is on record with similar figures. It appears that these repeated showings have made some impression. The Topeka, Kansas, Daily Capital, in its issue of June 11, in an editorial upon the annual report of Secretary Wallace, puts itself on record as follows:

Incidentally this report exposes the pretty widespread error to the effect that the wheat grower always sells at the low price of the year. Economists have shown the fallacy of this opinion, but many half-informed writers on farm questions keep on repeating it.

One-half the wheat crop of the United States passes out of the grower's hands in the three months of July, August and September. It is not true that these are months of low price. There is in fact no reason why they should be, for while the American crop comes on at this season, yet wheat is the most universal crop grown in the world and there is no harvest season in a world sense, but every month of the year somewhere is a harvest month for wheat.

The report shows that for the last 10 years the average price in July has been higher than in March or February and the average price in August higher than in October, November or January. The average September price is higher than January, October or November.

The high months, however, are May and June, and in these months for the last 10 years wheat has been 10 cents on the average higher than in harvest months in the United States. They are two final months of the crop year, and if the farmer held his crop to sell in May or June his holding charges would leave him probably a net price no greater than he receives by disposing of his crop nine or ten months earlier. Wheat, it must be said, is altogether the best marketed farm product, the machinery for marketing is the most complete and it operates more smoothly and economically than in any other product of the soil.

While it is true that wheat is harvested somewhere in the world in nearly every month of the year, the production of the northern hemisphere is four-fifths of the total, and

this harvesting is nearly all done in July and August. If it were not for the marketing facilities afforded by the grain exchanges the weight of grain offered in these months undoubtedly would cause a greater spread between these months and the later months of the crop year than now occurs. It is interesting that the above quotation is from an editorial in a paper owned by one of the authors of the Capper-Tincher act for government regulation of the grain exchanges.

It need not be expected that this refutation of common fallacies will dispose of them with any finality. All of the fallacies and falsehoods about economic conditions now current have been refuted over and over again, but trying to kill them off is just like trying to kill off the bollweevil or grasshopper family.

Distribution of Wealth

Mr. Walter R. Ingalls, a well known engineer who writes upon economic subjects and whose book upon the "Wealth and Income of the American People," has been referred to in these columns before, has been moved to discuss the floating estimate that two per cent of the population own sixty per cent of the wealth of the country. Of course there is no authoritative report upon the distribution of ownership; the estimate referred to was based upon scanty data gathered some years ago from the probate court records of two states, Massachusetts and Wisconsin. The calculation took the value of estates shown by these records as the basis of a general estimate. Mr. Ingalls shows that much more data is now available, and that it does not bear out this estimate. He reaches the conclusion that the people who pay income taxes, and who with their dependents represent something less than two per cent of the population, probably own, at the minimum, 25 per cent, and at the maximum, 46 per cent, of the tangible wealth of the country. The truth doubtless is somewhere between these extremes. His calculation, which appears in the "Iron Age" for October is an instructive one, and we shall take occasion to refer to it again. Of course the distribution of ownership of existing wealth at any given time is quite a different thing from the distribution of current income. Salaries and wages appear scarcely at all in a statement of property owned, but they are the largest single item in the proceeds of the country's productive equipment.

Mutuality of Interests

Senator Magnus Johnson, of Minnesota, has been invading the "enemy's country." He came down to New York to make a speech, and some parts of it were very good, while others will scarcely bear examination. He explained to his audience that the low prices which the farmer has been receiving for his products have been injurious to the entire circle of legitimate industry and trade. Thus:

> When the farmer got little or nothing for his produce under normalcy, the local storekeeper could not sell to the farmer; so the storekeeper proved the point even if he did not know it before.
>
> When the storekeeper could not sell, he could not buy of the traveling salesman, so the traveling salesman proved it for himself. When the salesman could not sell, the wholesalers grasped the basic fact. When the wholesalers and jobbers could not sell, the manufacturers also became convinced. All the organization, all the efficiency, all the advertising, all the tariffs, all the open-shop movement they could muster, could not bring them business when the workers on the farm could not buy.

The Senator, however, has established his political fortunes upon the opposite theory, to-wit, that all the big business interests of the country have been designedly attempting to ruin the farmer. He knows that any such policy would react disastrously upon them and all of their interests, but he is convinced that they do not know it, or if they do are so malevolent that they are determined to pursue it anyway. The wonder is that men so ignorant are not driven out of business by more intelligent competitors. That, it would seem, would be the easiest way to dispose of them.

The Senator says that he has observed that deflation is always bad. Of course; the volume of money and credit and level of prices always should be moving upward! In view of the convincing experience of Germany it is strange anybody thinks otherwise! It may be wondered whether he is a supporter of the Volstead act, or holds to the inalienable and joyful privilege of always having another drink.

Incidentally it may be stated again, that the aggregate earning assets of all the Federal Reserve banks, including rediscounts, loans and purchased securities, by the last statement in 1919 aggregated $3,080,495,000 and by the last statement of 1920 aggregated $3,263,227,000. And 1920 was the year in which the system is said to have been forcibly deflated.

NATIONAL DEBTS OF THE WORLD

A Comparison of Conditions in 1923 With Those of 1922, 1919 and 1913.

(By O. P. Austin, Statistician)

Budget deficits in more than 20 countries the world over, coupled with the consequent necessity for large governmental borrowings have made the year 1923 a spectacular one in its record of national indebtedness.

While a slight increase appears in the number of countries actually reducing their indebtedness large increases are shown in the nominal debt figures of certain other coun-

tries, especially those which have enormously inflated their currency and thus increased the nominal expenses of the government when measured in a currency of ever-decreasing purchasing power and have at the same time elected to meet this growing deficit by borrowing paper money from their great banks of issue, rather than by further borrowing from the people.

Berlin dispatches published in the New York press show that the debt of Germany has grown from 1½ trillion marks on January 1, 1923, to 2½ quadrillion on September 10. This increase in indebtedness, accomplished through heavy borrowings from the Reichsbank, necessitated heavy increases in its output of paper currency, which grew from 1 1/3 trillion on January 6, 1923, to 1 1/3 quadrillion on September 7, 1923.

In Austria, the Finance Budget Commission stated in June, 1923, that the public debt of the Austrian Republic then amounted to 16½ trillion paper kronen.

In Poland, which also follows the plan of meeting deficits by borrowing from the national bank rather than increasing taxation, the latest available statement of the Polish National Bank shows its "advances to the government" up to August 15 of the current year at over 5 trillion marks as against one-quarter of a trillion at the same date last year.

Latest reports from Soviet Russia, now counting its governmental operations in "quadrillions," state the deficit for the 11 months ending with November, 1922, at 1,566,690,000,000,000 rubles, while the November deficit alone was 366,398,000,000,000 making it quite apparent that the total deficit of the full calendar year 1922 approximated 2 quadrillion rubles.

Seeking a Gold Base

It is interesting to note in conjunction with the above figures of currency inflation that all of the four countries named are now basing their statements of governmental operations upon a gold unit of currency, the gold crown in Austria, the gold zloty in Poland, the gold mark in Germany, and the gold Tchernovetz in Russia, which at least indicates a disposition as a result of these experiments to return to a currency having a definite gold basis.

In the other countries of the world the additions to the national debts have been made by sale of the governmental securities to the people of the respective countries, sometimes direct from the offices of the government and in other cases through the banks of issue which have distributed them to the people, and it is interesting to add that all of the countries which have actually begun a reduction of their indebtedness belong to this group of countries whose obligations are held by their own citizens.

NATIONAL DEBTS OF PRINCIPAL COUNTRIES, 1913 to 1923
Stated in currencies of the respective countries
In Millions (000,000 omitted)

		1913	1919	1922	1923
Argentina	Paper Peso	1,208	1,286	1,603	1,970
Australia	£	277	326	416	412
Austria	Crown	7,313	54,200	1,437,568	16,500,000p
Belgium	Franc	3,739	10,337	36,493	37,006
Bolivia	Boliviano	50	69	69a	95
	£	81	103	112	103c
Brazil	Franc	299	322	322	332c
	U. S. $	......	......	75	68c
	Milreis	685	1,042	1,348	1,552c
Bulgaria	Lev	912	7,420	44,712	no data
Canada	$	483	2,250	2,390	2,409
	Gold Peso	160d	165e	154	155s
Chile	£	......	31	31	35
	U. S. $	......	......	62	no data
China	$ Mexican	969	1,886	1,450	1,906
Colombia	Gold Peso	5	5	3	2
	£	2	4	4	3
Congo, Belgian	Franc	278b	349	350a	568
Cuba	$	67	84	141	120
Czecho-Slov	Crown	......	6	45	no data
Denmark	Krone	357	779	1,169	1,190
Dom. Repub	$	13	13	15	14
Dutch E. Indies	Guilder	no data	426	761	1,124
Egypt	E £	94	93	95	no data
Finland	Finmark	8	662	1,933	1,877
France	Franc	32,881	154,471	316,985	388,101
Germany	Mark	5,017	161,100	1,559,000	2,830,060,000
Greece	Drachma	1,071	2,431	4,750	4,350g
Haiti	$	30	32	18	18
Honduras	Peso	6	4	4	4
	£	4	4	4	1h
Hungary	Crown	7	54	54,453a	954,686
India	£	304	465	635	......
Italy	Lire	15,137	69,500	113,200	117,000
Japan	Yen	2,484	2,601	3,562	3,837
Jugo-Slavia k	Dinar	654	3,564	5,100	6,000k
Mexico	Peso	135	139	{$500m	
	£	36	70		......
Netherlands	Florin	1,140d	2,441	2,736	3,500
N. Zealand	£	87	201	217	......
Norway	Krone	363	1,008	1,312	1,401
Panama	$	no data	7	4	4
Peru	P £	5	6	7	8
Philippine Is.	$	12	20	44	70
Poland	Mark	.....	6,117	455,000	4,120,000
Portugal	£	42	36	36	36
	Escudo	384	1,113	2,224	3,067
Rumania	Leu	1,640	21,400	30,311a	......
Russia	Ruble	8,846	44,000n	......	......
Spain	Peseta	9,793	10,280	11,963	......
St. Settlem'ts	£	7	15	16a	......
Sweden	Krone	602	1,086	1,526	1,568
Switzerland	Franc	123	1,662	2,083	2,201
Turkey	T £	126	466	400	......
Union So. Afr.	£	118	160	192	199
United King.	£	716	7,460	7,831	7,740
United States	$	1,029	25,334	22,665	22,270
Uruguay	Peso	136	168	172a	205
Venezuela	Bolivars	181	138	125	115

(a) 1921. (b) 1912. (c) Dec. 31, 1922.
(d) 1914. (e) 1918.
(g) Bank of Greece.
(h) Reduced in 1923 under new agreement with bondholders to £1,200,000.
(k) Exclusive of foreign debt which aggregated in 1923 about 2,000,000,000 gold dinars.
(m) In U.S. currency, exclusive of accumulated interest, approximately $20,000,000
(n) 1917; no official data for later years.
(p) Exclusive of League of Nations loan of 1923, £32,623,500.
(s) Paper pesos 286,000,000.